FTZ NO. 9

annual report

TO THE FOREIGN-TRADE ZONES BOARD

October 1, 2000 - September 30, 2001

HAWAII
FOREIGN-TRADE ZONE
NO. 9

State of Hawaii, Grantee and Operator
through its Department of
Business, Economic Development & Tourism

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January 22, 2002

Mr. Dennis Puccinelli
Executive Secretary
Foreign-Trade Zones Board
U.S. Department of Commerce
FCB – 4th Floor
Washington, D.C. 20230

Dear Mr. Puccinelli:

Submitted herewith, in accordance with the Foreign-Trade Zones Act and the regulations of the Foreign-Trade Zones Board, are an original and one copy of the annual report covering the operation of Foreign-Trade Zone No. 9, Honolulu, Hawaii, for the fiscal year ending September 30, 2001. The report includes information on the following subzones that were active during the year:

- Subzone 9-A, Tesoro Hawaii Corporation
- Subzone 9-D, Maui Pineapple Company, Ltd.
- Subzone 9-E, Chevron Products Company
- Subzone 9-F, The Gas Company

If you have any questions regarding this report, please contact Mr. Mark Anderson, telephone (808) 586-2507, facsimile (808) 586-2512. For Subzones 9-A through 9-F, you may contact:

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Respectfully submitted,

/s/

Mark K. Anderson
Acting Zone Administrator

Approved:

/s/

Seiji F. Naya, Director
Department of Business, Economic
Development & Tourism, State of Hawaii
Grantee, Foreign-Trade Zone No. 9

CONTENTS

ANNUAL REPORT
FOREIGN-TRADE ZONE NO. 9
HONOLULU, HAWAII
OCTOBER 1, 2000 – SEPTEMBER 30, 2001

OVERVIEW OF HAWAII'S FOREIGN-TRADE ZONE PROGRAM

The Foreign-Trade Zone Division of the Department of Business, Economic Development & Tourism administers the federal grant issued to the State of Hawaii in 1965 by the Foreign-Trade Zones Board in Washington, D.C. As the FTZ grantee, we are pleased to report on the activities that have taken place under this program during fiscal year 2001 (October 1, 2000 to September 30, 2001).

This year Foreign-Trade Zone No. 9 completed its 35th year of service to the people of Hawaii. During the past 35 years, activated Foreign-Trade Zone (FTZ) sites in Hawaii have handled over $46 billion of merchandise. Clearly, the FTZ program in Hawaii plays an important role in keeping Hawaii-based firms competitive in national and international markets.

Companies benefit from being in a Foreign-Trade Zone in a variety of ways. Foreign-Trade Zones are outside the Customs territory of the United States. Because of this special status, duty payments can be postponed, lowered by transforming merchandise, or in the case of exports, avoided altogether. These marginal savings that accrue to individual companies can often mean the difference between success or failure. A handy list of the different ways in which a Foreign-Trade Zone can benefit a company is attached at the end of this report as Appendix A.

Foreign-Trade Zones in Hawaii provide employment opportunities. By operating in a Foreign-Trade Zone, companies are able to reduce supply costs and some of the risks associated with international trade. We believe that these benefits that come from participating in the FTZ program have been instrumental in retaining manufacturing activity, in helping companies to compete in export markets, and in incubating new companies that import and export merchandise.

In 2001, 302 firms used the Foreign-Trade Zone program, handling 230 types of merchandise from 33 different countries of origin. The total value of merchandise handled during this past year reached $3,686,588,292. This figure is up slightly from the previous year and represents an increase in activity by Foreign-Trade Zone users.

The total value of merchandise handled in 2001 in the Zone program is the combination of the value of merchandise received ($1,815,850,731) and the value of merchandise forwarded ($1,870,737,561) from all active FTZ sites in Hawaii.

Merchandise can be received in an FTZ in domestic and foreign status. In 2001, $463,783,902 of domestic status merchandise entered Foreign-Trade Zone sites in Hawaii. During this same period $1,137,142,388 of foreign-status merchandise entered FTZ sites. Of merchandise received in foreign status, $488,744,779 was received in non-privileged foreign status and $841,698,467 was received in privileged foreign status.

Merchandise from Foreign-Trade Zone sites in Hawaii is forwarded to both domestic and foreign markets. In 2001, $1,226,494,843 of merchandise received was forwarded to the U.S. market and $408,470,825 was forwarded to foreign markets. An estimated $2.57 million of Customs duties were collected on merchandise entering the U.S. market from the Zone during the fiscal year.

Within Foreign-Trade Zone sites in Hawaii, a variety of value-added and manufacturing activities occurred that added between 3 and 75 percent to the value of merchandise forwarded. Companies reported that 1,447 employees were directly attributable to participation in the Foreign-Trade Zone program. An additional 1,121 people were employed on a temporary or seasonal basis. Companies using the FTZ program made capital improvements of $49.99 million to Zone facilities during the year.

Objectives for the coming year include:

- Find a Foreign-Trade Zone user for the Hilo FTZ site;

- Promote the Foreign-Trade Zone program on a statewide basis, making the program available to as many qualifying firms as possible;

- Operate the FTZ public warehouse facility at Pier 2; provide office, exhibit, warehouse, and industrial space to qualified businesses;

- Provide information to local, national, and international firms to explain the advantages of doing business in Hawaii under the auspices of the FTZ program;

- Partner with private and public sector entities to encourage greater participation in the FTZ program and thereby attract new economic activity to Hawaii;

- Implement appropriate information technology to reduce the transaction costs of complying with federal regulations;

- Plan for the expansion of services and facilities to meet the need of businesses that qualify for FTZ utilization; and

- Continue to operate the program in a self-sustaining manner without use of State general funds.

There are currently 13 sites on the islands of Oahu, Maui and Hawaii that have received FTZ designation. Of the 13 sites, three general-purpose zone sites and four special-purpose subzone sites are active. The Foreign-Trade Zone Division is responsible for ensuring that U.S. Customs and Foreign-Trade Zones Board regulations are followed at these sites.

ACTIVE FOREIGN-TRADE ZONE SITES IN 2001

Active General-Purpose Zone Sites	Active Special-Purpose Subzone Sites	
Pier 2, Honolulu Harbor	9-A	Tesoro Hawaii Corporation
Honolulu International Airport (fueling facility)	9-D	Maui Pineapple Company, Ltd.
James Campbell Industrial Park	9-E	Chevron Products Hawaii
	9-F	The Gas Company (SNG Plant)

Board Actions. These are actions that require formal application and review by the Foreign-Trade Zones Board in Washington, D.C.

- Subzone 9A (Tesoro Hawaii Corporation) approval for minor boundary modification by letter dated July 13, 2001. This action allowed Subzone 9A to change the configuration of its plant which will result in new investment in 2002.

- Approval for extension of authority of Board Order 735, FTZ-9, Pacific Allied Products, Ltd. (plastic food/beverage containers), Honolulu, Hawaii.

- Relinquished manufacturing authority for NIC and Hawaii Bag Co., Board Order Nos. 625 and 827.

- Filing and acceptance of FTZ-9's FY 2000 Annual Report to the Board.

PART I. SUMMARY OF ACTIVITY – GENERAL-PURPOSE ZONE

Three general-purpose zone sites were active during FY 2001. These sites include (A) the Pier 2, Honolulu Harbor warehouse; (B) the Hawaii Fueling Facilities Corporation at Honolulu International Airport; and (C) Pacific Allied Products, Ltd. at James Campbell Industrial Park.

A. Pier 2, Honolulu Harbor

The Pier 2 facility is designed to be an incubation-type, common-use facility used primarily for distribution, storage, and transshipment activities. The 17-acre site has 300,452 square feet of covered space including 14,451 square feet of office and exhibit space. Revenue generated from use of this facility supports the statewide marketing and administration of the Foreign-Trade Zone program in Hawaii. Foreign-Trade Zone No. 9 is headquartered at this site. FTZ Board Order 188 established this site in 1982.

Firms that take advantage of the FTZ program in this incubation-type facility benefit by sharing common costs among many Zone users. Costs are incurred on a per-unit or per-use basis. Specialized services are available to allow manipulation and value-added activities. These activities include sorting, pricing, tagging, packing, labeling, and consolidating stocks. Immediately adjacent to the warehouse area, Zone users may lease office and exhibit space as well as make use of office equipment. A conference room is available for use at a nominal charge to members of the maritime community.

An information system supports the warehouse activities at Pier 2. Zone users are able to view their inventory levels, create preliminary receiving and delivery tags, code zone lots with item codes, print price lists, and perform other transactions that involve their stored merchandise. This information system will be further improved in the upcoming year to allow for easier deployment.

Promotional and marketing efforts were increased. Close to $31,000 was spent in advertising on television, in the financial section of the daily newspapers, and in other printed media. The advertising campaign targeted firms that import or export dutiable merchandise. A total of 31 new firms began using the Pier 2 site in 2001.

In 2001, the Pier 2 site handled 222 different types of merchandise from 32 countries. During the year, 258 firms used the facility of which 154 firms used the warehouse on a regular basis. The facility received $29,747,563 in merchandise of which $19,922,471 was in foreign status. By modes of transportation, a total of $27,651,271 or 92.9 percent of merchandise received arrived by sea, while 8.1 percent or $2,096,292 arrived by air.

Of foreign merchandise received, 15.4 percent or $3,066,761 was exported to foreign countries while merchandise forwarded to the U.S. market was valued at $22,999,990.

TOP FIVE COUNTRIES BY VALUE OF MERCHANDISE RECEIVED

Country	Value of Merchandise Received
Japan	11,867,335
Hong Kong	2,330,684
China	1,641,994
Taiwan	757,343
United Kingdom	399,742

TOP FIVE TYPES OF FOREIGN STATUS MERCHANDISE BY VALUE

Merchandise	Value of Merchandise Received
Foodstuffs	9,137,385
Vehicles	8,120,101
Jewelry	2,351,294
Wine/Liquor	1,664,963
Fabric	1,489,348

The Pier 2 site continues to be used by a number of state and federal agencies. The U.S. Customs Service performs selective inspections in a Centralized Examination Station located at this site. Cargo is examined, weighed, inventoried, and stored. The Pier 2 facility also serves as the U.S. Customs General Order warehouse for detained and seized cargo.

B. Hawaii Fueling Facilities Corporation

The facilities consist of 12 jet fuel storage tanks on Sand Island Access Road in Honolulu and six additional tanks at Honolulu International Airport along with associated pipelines and equipment dedicated to jet fuel that meets the “Jet A-1" standard of ASTM D1655. The facilities were approved by FTZ Board Order 751 on June 19, 1995 and activated on September 1, 1997.

The Zone site consists of two separate but parallel systems for the storage and delivery of jet fuel. The “Jet A” system is dedicated to fuel that satisfies the ASTM D-1655 specification for Jet A fuel. The Jet A-1 system is dedicated to fuel that satisfies the ASTM D-1655 specification for Jet A-1 fuel. The difference is in the freeze point: Jet A has a -41 degree Celsius specification; Jet A-1 has a -47 degree requirement.

As approved in FTZ Board Order 751, the Zone site includes both the Jet A and Jet A-1 systems. Until August of this fiscal year, however, only the Jet A-1 system was activated because only Jet A-1 fuel was used on qualified flights. HFFC filed a request with the Port Director of Customs in Honolulu to activate the Jet A system. The Port Director approved that request by letter dated September 10, 2001.

Numerous international airlines used foreign-status fuel received and disbursed through the Zone site. All users promote the Zone in their negotiations with fuel suppliers. All subzone refiners with access to the Zone site are aware that a foreign-trade zone expansion site has been activated at that facility.

Foreign-status fuel received at the Zone site is primarily intended for use on aircraft in international and other trades described in Section 309 of the Tariff Act, as amended (19 U.S.C. 1309).

During the fiscal year, seven companies supplied foreign-status jet fuel at Honolulu International Airport. Tesoro Hawaii Corporation (Tesoro) supplied jet fuel in privileged and non-privileged foreign status by pipeline from its foreign-trade zone refinery in Kapolei (FTZ Subzone 9A). In addition, Pacific Fuel Trading Corporation, Japan Airlines, Chevron International Sales Company Inc., United Aviation Fuels Corporation, Northwest Airlines Inc., Hawaiian Airlines Inc., and Tesoro supplied foreign-refined jet fuel by vessel admitted in non-privileged foreign status. All fuel was admitted into the Zone site in the name of HFFC.

No manufacturing or processing activity occurs in the Zone site. The site is approved solely for the receipt, storage and disbursement of jet fuel.

HFFC contracts with Airport Group International, Inc. (AGI), an airport fuel service company, to operate and manage the HFFC fuel facilities at Honolulu International Airport. AGI employs 46 persons at the Airport, all of whom are involved in Zone activities.

Activities within the Zone site make a significant contribution to the Hawaii economy. Foreign-status fuel valued at more than $244.1 million was received and dispersed through the Zone site during fiscal 2001. Foreign-status fuel was used by as many as 38 carriers on approximately 30 to 35 qualified flights daily.

In summary, foreign-status fuel satisfied significant demand by airlines operating qualified flights from Honolulu International Airport. This demand provided an important outlet for foreign-status fuel produced by domestic Zone refiners.

C. Pacific Allied Products, Ltd., James Campbell Industrial Park FTZ

Pacific Allied Products, Ltd. reactivated its 98,700 square foot site in the James Campbell Industrial Park general-purpose zone on June 12, 1998. Pacific Allied Products, Ltd. manufactures food and beverage containers of polyethylene terephthalate (PET) under Zone procedures by virtue of a grant of authority (FTZ Board Order 735) issued by the Foreign-Trade Zones Board on May 5, 1995. FTZ Board Order 735 authorized this activity until July, 2000. Subsequently, in a letter dated June 23, 2000 from the Foreign-Trade Zones Board, the authority to conduct plastic food/beverage container manufacturing was extended until July 1, 2001. FTZ Board Order 1177, issued on July 17, 2001, extended manufacturing authority on a permanent basis by removing the five-year time restriction on manufacturing.

While operating under Zone procedures, Pacific Allied Products has been able to invest over $500,000 in new plant equipment to increase production. The company adds significant value to the PET product in Hawaii. New orders have been booked for 2002 that will effectively triple the company's throughput. The success of this operation has allowed employment to grow to 45 employees. The development of export markets remains a priority for Pacific Allied Products.

PART II. USE OF ZONE BY BUSINESS FIRMS
(General-Purpose Zone No. 9)

All general-purpose zone sites served 298 businesses during fiscal 2001. Of these, 193 firms used the Zone on a continuous basis, employing up to 462 persons, 359 of whom were full-time employees.

Manipulation, manufacturing and processing operations conducted in general-purpose zone sites included:

Site I: Pier 2 Warehouse and Distribution Facility	
Advertising materials	Verify contents; prepare/correct packing list; create packages/additional units.
Automobiles, motorcycles and trucks	Verify marking requirements; label/relabel goods.
Beer	Destroy goods/empty containers; transfer title; transfer original to master lot; change zone status.
Building materials	Inventory goods; create packages/additional units; repack goods; assemble/disassemble goods; destroy goods.
Champagnes and wines	Verify contents; inventory goods; prepare/correct packing list; create packages/additional units; sort/consolidate goods; convert to piece count; remove samples; transfer original to master lot; change zone status; destroy goods.
Drugs, medicines and cosmetics	Inspect for damage.
Food products	Sort/consolidate goods; destroy goods/empty containers; remove samples; transfer title.
Footwear	Verify contents; remark cartons; create packages/additional units; repack goods.
Furniture	Verify contents; inspect for damage; remark cartons; destroy goods/empty container.
General merchandise and miscellaneous products	Verify contents; inventory goods; examine for quality; prepare/correct packing list; label/relabel goods; remark cartons; create packages/ additional units; repack goods; sort/consolidate goods; transfer title; convert to carton.
Handicrafts	Repack goods; sort/consolidate goods; remark cartons.
Jewelry, silverware, watches	Inventory goods; create packages/additional units; sort/consolidate goods; destroy goods/empty containers; clean and tag; repair.
Leather goods	Transfer title.
Liquor	Sort/consolidate goods; convert to piece count; transfer original to master lot; change zone status; adjust inventory due to leakage.
Machinery and parts	Transfer title; temporary removal from FTZ.
Sporting goods and games	Label/relabel goods.
Textiles	Repack goods; sort/consolidate goods.
Tobacco products	Destroy goods; empty containers; transfer original to master lot; convert to cartons.
Wearing apparel	Sort/consolidate goods; transfer title.

Site II: Hawaii Fueling Facilities Corporation	
Jet fuel, foreign status	Distribute jet fuel to aircraft at Honolulu International Airport via bonded pipelines and hydrants.

HAWAII FUELING FACILITIES CORPORATION LIST OF AIRLINE USERS

Air New Zealand
Air Canada
Air Pacific
Air Transat
All Nippon Airways
American Trans Air
American International Airways
Asia Pacific
Asiana
Atlantic Icelandic Airline
Canada 3000
Canadian Airlines
China Airlines
China General
China Eastern
China Xinhua
China Southern
Continental Airlines
Eva Airways
Evergreen
Federal Express
Garuda Indonesia
Harlequin Air
Hawaiian Airlines
Japan Airlines
Japan Air Charter
Kabo Air
Korean Airlines
Lan Chile
Lufthansa
Malaysia Airlines
Northwest Airlines
Philippine Airlines
Polar Air
Polynesian Airline
Qantas Airways
Saudi Arabia Airlines
Singapore Air
Southern Air Transport
United Parcel Service
United Airlines

Site VI: Pacific Allied Products, Ltd.	
Polyethylene terephthalate	Produce plastic bottles/containers for other users, i.e., soft drink manufacturers, etc.

PART III. MOVEMENT OF MERCHANDISE
(General-Purpose Zone No. 9, Sites I, II and VI)

The Zone handled 224 different items from 33 countries of origin, compared with 330 items from 27 countries during the preceding fiscal year.

A. Merchandise in the Zone at Beginning and End of Fiscal Year

	Beginning Value	Ending Value
Domestic Status	1,674,894	3,925,720
Foreign Status	23,546,499	24,741,004
Total:	25,221,393	28,666,724

B. Movement of Merchandise

Movement	Value
Received:	
Domestic Status	19,674,320
Foreign Status	90,347,848
From Other U.S. FTZs:	
• Domestic Status	0
• Foreign Status	174,022,182
Total:	284,044,350
Forwarded:	
To the U.S. Market	63,590,942
To Foreign Countries (Exports)	217,008,077
To Other U.S. FTZs	0
Total:	280,599,019

C. Value Added. Because of the variety of activities conducted at these three Zone sites, it is difficult to accurately estimate the contribution from Foreign-Trade Zone procedures to the value of all merchandise forwarded. A range of 3 to 20 percent added to the value would be an approximation.

D. Main Categories of Foreign Status Merchandise Received (Top Five)

Category	Value
1. Jet Fuel	244,117,980
2. Foodstuffs	9,137,385
3. Vehicles	8,120,101
4. Jewelry	2,351,294
5. Wine/liquor	1,664,963
Total:	265,391,723

E. Foreign Status Merchandise Received:

Nonprivileged Foreign: $88,838,585
Privileged Foreign: $174,022,185

F. Customs duties collected on merchandise entered from the Zone during the fiscal year amounted to $732,480.

PART IV. PHYSICAL FACILITIES – AVAILABLE AND ACTIVATED

Site I. Site I is located at Pier 2, Honolulu Harbor, on the island of Oahu. The original Zone site was activated on June 15, 1966, and the Zone relocated to its present site on November 15, 1982. This site also serves as the headquarters for the FTZ No. 9 program in Hawaii. The general-purpose zone occupies 17 acres of paved area at Pier 2/Fort Armstrong and includes 300,452 square feet of covered space. A variety of services and types of facilities are available at this complex on a per unit or per use basis. Office space and private warehouse space are available adjacent to the activated area. Access to office equipment and furniture is also provided.

Site II. Site II consists of 1,051 acres zoned for industrial uses at James Campbell Industrial Park in Ewa, Oahu. This expansion site includes the Barbers Point Deep Draft Harbor and was approved by the Foreign-Trade Zones Board on August 21, 1987. A portion of this site was reactivated on June 12, 1998.

Site VI. Site VI is adjacent to Honolulu International Airport on the island of Oahu. This site includes the tanker terminal at Pier 51, bulk storage along Sand Island Access Road, fueling facilities at Honolulu International Airport, and pipelines connecting these facilities. This site was approved by the Foreign-Trade Zones Board on June 19, 1995 and activated on September 1, 1997.

Zone Schedule

The rates, charges, rules and regulations of Foreign-Trade Zone No. 9 are contained in *Tariff No. 1.* Copies of this tariff are available for inspection and may be purchased upon request at $5 per copy from the FTZ offices at Pier 2, Honolulu Harbor.

PART V. SUBZONE ACTIVITY

SUBZONE NO. 9-A

A. Summary – Oil Refinery (Tesoro Hawaii Corporation)

Owner, Operator and Corporate Affiliation. Foreign-Trade Subzone 9-A is occupied by Tesoro Hawaii Corporation, a wholly-owned subsidiary of Tesoro Petroleum Corporation. Tesoro Hawaii Corporation (Tesoro) is the Subzone owner and operator. Subzone 9-A was initially authorized by FTZ Board Order 82 on April 20, 1970 and activated on April 7, 1972.

Subzone Site and Plant Facilities. Subzone 9-A is situated on approximately 203 acres in Campbell Industrial Park, Kapolei, Hawaii, about 24 miles west of the primary zone in Honolulu. Facilities include Tesoro's 95,000 barrel-per-day oil refinery complex which includes the main processing units, storage tanks with a capacity of 5.2 million barrels of crude oil and refined products and administrative and utility buildings.

Activities.

a. Inputs. For the year ended September 30, 2001, Tesoro's refinery crude unit throughput on an average daily basis was as follows:

- Total throughput (all sources) = 90,000 Barrels Per Day (BPD)
- Total crude oil throughput = 89,000 BPD
- Total other throughput (mostly slop oil and off-test products) = 1,000 BPD
- Total foreign oil throughput = 61,000 BPD, consisting of the following HTSUS numbers:
  2709.00.10 (crude testing under 25 degrees A.P.I.) = 16,000 BPD
  2709.00.20 (crude testing 25 degrees A.P.I. or more) = 45,000 BPD

b. Production. The current rated capacity of the refinery is 95,000 BPD.

- The primary non-NPF attributed products are gasoline, jet fuel, diesel and residual fuel oil. These products account for 92 percent of total output.

- The types of customers for the non-NPF products include various wholesale gasoline and diesel customers (including jobbers and Tesoro-branded gasoline stations); various commercial airlines and the military for the jet fuel; electric power producers for the residual fuel oils; and also various ocean-going vessels (both foreign and domestic) for the residual fuel oils.

- The primary products produced from NPF attributed crude oil are asphalt, propane, fuel gas and naphtha. These products account for 8 percent of total output.

- The types of customers for the NPF products include various paving companies for the asphalt, various wholesalers for the propane, the refinery itself for the fuel gas, and a synthetic natural gas manufacturer for the naphtha.

- Tesoro occasionally ships products to its sister refineries in Kenai, Alaska and Anacortes, Washington. The total of such inter-company shipments accounts for approximately 3 percent of total shipments during the period.

- The direct export activity for this reporting period consisted principally of bunker fuel sales to foreign ships and naphtha shipments to Japan. These export shipments accounted for approximately 11 percent of the total shipments during the period.

1. Percent export of total production Direct exports Indirect imports	30 percent 11 percent 19 percent
2. Current rated crude distillation capacity	95,000 BPD
3. Employment: Direct Indirect (e.g., contract employees)	 205 employees 900 employees
4. Volume of total crude oil receipts on an average daily basis	87,000 BPD
5. Volume of foreign crude oil receipts on an average daily basis	61,000 BPD
6. Estimated percentage of foreign crude receipts under 25 degrees API	23 percent

Current Production Compared to Board Approved Production. Board Order 100, issued in 1974, authorized the refinery to operate at 125,000 BPD crude distillation capacity. Current production of about 90,000 BPD is well within this range.

Economic and Business Benefits. Tesoro faces strong competition in all sectors of its business operations. Foreign-Trade Zone (FTZ) status has helped improve the company's competitive position in the industry. Specifically, FTZ status provides opportunities for the following economic benefits:

- Cash flow savings from the deferral of paying customs duties and fees on imports of crude oil and other refinery feedstocks, from the time of importation, when such duties and fees otherwise would be due, to the time of withdrawal of finished products into U.S. commerce.

- Avoidance of customs duties on imported feedstocks attributable to finished products withdrawn from the FTZ for exportation, or, where drawback presently is available, cash flow savings from not paying the duties on such feedstocks as opposed to paying the duties, refining, exporting, filing for drawback and then waiting for drawback payment.

- Duty savings based on the FTZ operator's election to enter certain finished products (e.g. asphalt, fuel oils, refinery fuels and liquid petroleum gases) at the finished product rates as opposed to the crude oil rate, otherwise termed "inverted tariff" benefits.

Tesoro's annual FTZ savings based on the above items is estimated to be $1 million. FTZ status has made the company more competitive by reducing operating costs, improving margins and enabling it to compete more effectively in foreign markets.

Public Benefits to the Local and National Economies. FTZ status is helping Tesoro remain competitive in the petroleum industry. For Hawaii and the country, that translates into keeping an operating oil refinery in business on U.S. land with an ever-increasing investment in facilities and commensurate levels of local employment. Public benefits include the following:

- Assured supply of domestically-produced petroleum products. Tesoro's presence in Hawaii means a reliable supply of locally produced transportation fuels and energy products for the airlines, ocean-going ships, buses, public/private vehicles, agriculture producers, small businesses, electric power producers, and diverse service activities that make Hawaii go. Tesoro reduces risk to an economy that otherwise would have to depend on out-of-state and foreign suppliers for much of its petroleum supplies.

- More competitive in foreign markets. Tesoro's success as an exporter of petroleum products into foreign markets helps the U.S. achieve a more favorable balance-of-trade position with foreign countries. Tesoro's FTZ status has helped to level the playing field with regard to the company's ability to compete head-on with foreign refiners. Tesoro's direct exports of naphtha to Japan and bunker fuels to foreign ships, as well as indirect exports of jet fuel to foreign airlines are good examples of FTZ benefits.

- Increased investment in U.S. refining. FTZ status has increased Tesoro's profitability and the commitment of senior management to continue investing in the plant. During the past year, Tesoro completed several capital improvement projects totaling about $15 million in its continuing program of facilities investment. Many other capital investment projects are planned for the refinery for the following and succeeding years.

- Jobs and buying power for U.S. workers. On an annual basis, Tesoro salaries in the Subzone are expected to provide direct local buying power of more than $15 million for its 205 full-time refinery employees. In addition, due to various ongoing capital projects, including periodic turnarounds at the refinery, Tesoro partially supports the employment of approximately 400 contractors (technical, professional, clerical, skilled tradesmen and laborers) throughout the year. Away from the refinery, Tesoro operations in Subzone 9-A partially sustain the employment of approximately 100 people in the company's corporate offices in downtown Honolulu as well as 400 people who work in supply, distribution and service operations (including Tesoro-branded gasoline stations) throughout the state of Hawaii. It is estimated that Tesoro Subzone 9-A directly and indirectly contributes to the support of over 1,105 people in the state of Hawaii.

B. Movement of Merchandise – Subzone 9-A

1. Merchandise in Subzone 9-A at Beginning and End of Fiscal Year

	Beginning Value (October 1, 2000) $1,000	Ending Value (September 30, 2001) $1,000
Domestic Status/Duty Paid	24,020	- 0 -
Foreign Status	97,060	70,671
Total:	121,080	$70,671

2. Movement of Merchandise in Subzone 9A

Movement	Value ($1,000)
Received:	
Domestic Status/Duty Paid	275,547
Foreign Status	610,907
From Other U.S. FTZs:	
• Domestic status	16,065
• Foreign status	0
Total:	902,519
Forwarded:	
To the U.S. Market	597,520
To Foreign Countries	131,774
To Other U.S. FTZs	175,460
Fuel Consumed	48,174
Total:	952,928

Explanation of Discrepancies: Fuel consumed is not entered into U.S. commerce per Tesoro's Grant.

3. Value Added. Activities in the Subzone (labor, overhead, etc.) added approximately 8 percent to the values.

4. Main Categories of Foreign Status Merchandise Received

Category	Value $1,000	Main Countries of Origin
Crude Class IV	198,672	Indonesia, Australia
Crude Class III	281,525	Indonesia, Australia, Saudi Arabia
Crude Class II	130,710	Indonesia, China
Total:	610,907	

5. Foreign Status Merchandise Received ($1,000)

   Nonprivileged Foreign: $79,437
   Privileged Foreign: $531,470

6. Customs duties collected on merchandise entered into U.S. Customs territory from the Subzone during the fiscal year amounted to $789,715.

7. In accordance with the Subzone 9A grant, fuel consumed within the FTZ is not entered for consumption. Such fuel totaled $48.2 million during the year. No significant amount of merchandise was destroyed in the Subzone during the fiscal year.

SUBZONE NO. 9-D

A. Summary – Pineapple Cannery (Maui Pineapple Company, Ltd.)

Owner, operator and corporate affiliation. Maui Pineapple Company, Ltd., a subsidiary of Maui Land & Pineapple Company, Inc., operates a pineapple cannery in Foreign-Trade Subzone 9-D. The Subzone was authorized by FTZ Board Order 329 on April 25, 1986 and activated on April 30, 1986.

Subzone site and plant facilities. The Subzone is 100 miles east of the primary Zone and is located in the Kahului region of the island of Maui, encompassed by Kaahumanu Avenue, Kane Street, and Wakea Avenue, comprising an area of approximately 22 acres.

The pineapple cannery operation consists of the preparation, canning, warehousing, and shipment of canned pineapple, pineapple juice and fresh cut pineapple products. The site also contains a can manufacturing facility, storage facilities, a quality control laboratory, and a diesel-powered electrical generation plant.

Employment. During the fiscal year, the Subzone employed up to 559 persons, 249 of whom were full time. Also, there were 13 people involved in Subzone activities who are employed in Maui Pine's corporate headquarters.

Activities. Maui Pine receives about five shipments of tinplate from Japan annually for the production of sanitary cans which are used in the canning operation. Also, during the fiscal year, Maui Pine withdrew unfilled cans and matching lids from the Subzone and assessed duty at the applicable rate after the sale to other U.S. food processors. The tinplate is discharged from ships at Kahului Harbor and trucked to Subzone 9-D.

The pineapple cannery at Kahului is the only pineapple facility of this type remaining in Hawaii. It has the capacity to process up to 225,000 tons of pineapple annually with normal production of around 187,000 tons. The cannery normally operates on two shifts from mid-June to mid-August and on one shift during the rest of the year.

A great majority of the pineapple products–canned fruit and juice–are shipped via container from Kahului Harbor to domestic U.S. markets. A lesser amount is shipped to foreign (mostly Japan and Canada) markets.

The equipment used in the production of pineapple, pineapple juice, and pineapple juice concentrate is constantly upgraded under a planned capital improvement program. Under this program, $3,595,944 was expended to acquire and upgrade new and existing equipment for the cannery, the warehouse, the can manufacturing plant, and the electrical power plant in fiscal year 2001.

Currently, $1,127,249 in capital improvements are underway, and for calendar year 2002, approximately $2,800,000 is planned for the acquisition of new production equipment. These capital improvement projects will expand Maui Pine's product line and maintain the quality and productivity of the manufacturing process.

Economic and business benefits. Maui Pineapple Company, Ltd. benefits by the savings of not having to pay the U.S. Customs duties on imported tinplate.

Public benefits to the local and national economies. Foreign-Trade Zone procedures have strengthened the competitiveness of Maui Pine and enabled it to continue to be an important part of Hawaii's manufacturing sector. As mentioned above, a total of 559 manufacturing jobs were supported by Maui Pine of which 249 were full-time. Exports totaled approximately $1.7 million.

B. Movement of Merchandise – Subzone 9-D

1. Merchandise in Subzone 9-D at Beginning and End of Fiscal Year

	Beginning Value (October 1, 2000)	Ending Value (September 30, 2001)
Domestic Origin/Duty Paid	6,600,612	6,807,267
Foreign Status	5,767,514	5,573,839
Total:	12,368,126	12,381,106

2. Movement of Merchandise in Subzone 9-D

Movement	Value
Received:	
Domestic Origin/Duty Paid	46,369,568
Foreign Status	8,219,780
From Other U.S. FTZs:	
• Domestic Status	179,678
• Foreign Status	0
Total:	54,769,026
Forwarded:*	
To the U.S. Market	53,178,508
To Foreign Countries (Exports)	1,577,538
To Other U.S. FTZs	0
Total:	54,756,046

**Based on Customs value. Value added is described in Item 3 below.*

3. Value Added. Value added in Subzone activities (which include cost of labor, overhead, etc., of the can making and pineapple cannery operation) averaged approximately 37 percent of the value of merchandise forwarded.

4. Categories of Foreign Status Merchandise Received at Subzone 9-D

Category	Value
Electrolytic Tinplate	8,219,780

5. Foreign Status Merchandise Received:

   Nonprivileged Foreign: $8,219,780
   Privileged Foreign: $0

6. Customs collection of duties and other fees (i.e., merchandise processing fees) on merchandise entered into U.S. Customs territory from the Subzone during the fiscal year was $21,780.

7. Merchandise destroyed or consumed in the Subzone during the fiscal year was valued at $499,139.

SUBZONE NO. 9-E

A. Summary – Oil Refinery (Chevron Products Company, Hawaii Refinery)

Owner, operator and corporate affiliation. The Hawaii Refinery, Foreign-Trade Subzone 9-E, is owned and operated by Chevron Products Company, a division of Chevron U.S.A. Inc. Approval of the State of Hawaii application requesting a special-purpose subzone for Chevron's refining facility at Barbers Point was granted by Board Order 415 on December 21, 1988, and Subzone 9-E was activated on April 1, 1990.

Subzone site and plant facilities. Chevron's Hawaii Refinery is situated in Campbell Industrial Park, approximately 22 miles west of the primary zone in Honolulu. The Chevron subzone facility occupies approximately 248 acres of land.

In the late 1950's, Chevron negotiated the purchase of Campbell Estate land at the then undeveloped area of Barbers Point. On this site, ground was broken and Chevron began construction of the first oil refinery in the State of Hawaii. This development gave rise to the formation of what is now known as Campbell Industrial Park. With the Chevron Refinery as its anchor tenant, the area has developed into an industrial park with various types of warehousing, construction trade and supply, co-generation facilities, and a deep draft harbor.

Employment. At the end of fiscal year 2001, Chevron employed 186 full-time employees at its subzone. The subzone also required an average of 64 contractors (technical professional, clerical, skilled tradesmen, and laborers) to support maintenance and capital improvement projects during the year. Distribution of the products refined at the Chevron subzone to customers throughout the Aloha State is handled by Chevron's Hawaii Marketing Region. Chevron employs 39 people at its marine terminal facilities on Oahu, Kauai, Maui and the Big Island of Hawaii. To monitor Chevron's maritime activities in Hawaii, Chevron Shipping's Honolulu Office maintains a staff of 2 people.

Activities. Chevron's Logistics and Trading Group continually seeks the best opportunity crudes to refine into products to satisfy the needs of its customers. During the past year, the Chevron subzone received various crudes from several areas throughout the Pacific Rim and also crude from Africa. In all, 15 different types of crude oil were included in the refinery crude slate. The volume of crude oil received during the past year averaged 53,400 barrels per day. Approximately 78 percent of the crude oil received at the subzone was from foreign countries. The majority of the foreign crude received was classified as HTSUS number 2709.00.2090. Less than 1 percent of the foreign crude received was classified as HTSUS number 2709.00.1000. Various non-crude receipts were not significant at 1,900 barrels per day.

The Chevron Hawaii Refinery product slate consists of approximately 20 different finished products: several grades of motor gasoline for Hawaii motorists; aviation gasoline for small aircraft; jet fuel for commercial airlines; diesel fuels for transportation, industrial machinery, and electric generation; liquified petroleum gas (LPG) for homes and industry; fuel oils for electricity and industrial power generation, and vessel bunker; several grades of asphalt for Hawaii's roads and highways; and sulfuric acid used in fertilizer manufacturing. The majority o the products refined at the Chevron subzone are marketed in the State of Hawaii to satisfy local petroleum needs. Approximately 77 percent of the subzone products are used in Hawaii and the balance of the refined products are exported to Pacific Rim countries or shipped to the U.S. West Coast.

Non-NPF (non-privileged foreign) status products are motor gasoline, aviation gasoline, and jet fuel. Products attributed to NPF crude oil are naphtha, diesel, LPG, refinery gas, fuel oils, and asphalt. During the past year, non-NPF products were 46 percent of production and NPF products were 54 percent of production.

Products at the Chevron subzone are admitted and transferred by several pipeline networks and tank trucks. Chevron utilizes its two 22-mile pipelines, which connect the refinery subzone with the Chevron Honolulu Marketing Terminal, to transfer the majority of its refined products. Marine pipelines to the Barbers Point offshore mooring are used to receive crude oil and petroleum products. The marine pipelines are also used to export refined products via tanker vessels. Pipelines to the Barbers Point Deep Draft Harbor facilitate inter-island product movements via barge. Various pipeline networks in the Campbell Industrial Park are used to transfer products between Chevron and another refinery, and to customers in the industrial park. The subzone truck loading racks are used for sales of aviation gasoline, fuel oil, asphalt, and liquified petroleum gas (LPG).

During the past year, the Hawaii Refinery implemented an aggressive capital program to continue its commitment to provide quality petroleum products, safe and reliable operations, and environmental compliance. Refinery upgrade projects included: FCC Revamp ($17.0 million) a three-year project to improve the controllability of the FCC which will result in improved yields, and a Barge harbor project ($2.9 million) to allow the loading of ships and barges at the Barbers Point Harbor for improved distribution flexibility and efficiency. Several projects are underway to improve reliability: Electrical Systems ($2.0 million) improvements to wiring and substations have been implemented to advance the electrical system reliability; Honouliuli Water project ($1.0 million) to use reclaimed water in the refinery instead of potable water. Environmental projects currently in progress include: FCC Precipitator project ($5.0 million) to reduce the opacity from the precipitator stack/ Refinery Tank program ($3.5 million) for continuation of the effort to ensure integrity of all refinery tanks.

<u>Level of production</u>. Initially, the Chevron refinery had the capacity to process approximately 33,000 barrels of crude oil per day. Over the years, expansion and upgrading of the refining facilities have been undertaken to meet the changing needs for

petroleum products in the Hawaiian islands. Currently, the refinery crude unit has the capacity to process approximately 60,000 barrels of crude oil per day. This level is within the scope of authority granted by Board Order 415.

The refinery tank field has the storage capacity of approximately 3.9 million barrels of crude, feedstocks and products. This storage capacity enables Chevron to keep an ample supply of products on site, which provides an added safeguard for the energy needs of the state.

Economic and business benefits. Foreign-Trade Zone status for the Chevron Hawaii Refinery enables duty deferral on products identified as being refined from foreign crude oil while they remain in the subzone. Duty is paid only upon the transfer of products into U.S. Customs territory. Additionally, Zone procedures enable certain refined products to be dutiable at rates lower than that of crude oil, placing those products at duty rates equal to that of the same products from foreign suppliers. Zone procedures also eliminate the payment of duty on those products that are exported. It is estimated that FTZ procedures allow duty savings on approximately 40 percent of the foreign crude admitted into Foreign-Trade Subzone 9-E.

The FTZ program was created in order to stimulate international trade and create jobs and investment in the U.S., rather than abroad. Since subzone activation, Chevron has regularly exported refined products from the Hawaii subzone to Pacific Rim countries. Adequate demand for some of the products that come from refining a barrel of crude oil does not exist in the Hawaii market. Consequently, the export markets provide a practical alternative. Export activity has helped Chevron and contributes to improving the U.S. balance of trade. However, the export markets are very competitive given the worldwide source of supply. FTZ procedures afford duty saving opportunities, which in turn reduce operating costs and enhance Chevron's ability to maintain its Hawaii Refinery and compete with other suppliers of petroleum products in the Hawaii market and the Pacific Rim.

Public benefits to the local and national economies. Hawaii, more than any other state, depends on oil for its energy needs. The islands, unlike states on the continental U.S., have no indigenous source of crude, natural gas, or coal. Additionally, Hawaii's isolation makes it impossible to buy generated power from other states. At its Hawaii subzone, Chevron refines crude oil into quality petroleum products primarily for use in the islands. Chevron's ability to refine and store petroleum products in Hawaii plays a vital role in ensuring that the energy needs of the state are satisfied.

The Chevron subzone provides highly desired manufacturing jobs with high wages and gives a diversity of employment opportunities in an economy dominated by service industries. In addition to direct employment within the subzone, Chevron's presence supports the employment base of the local trades and services industries that are utilized by the refinery.

Chevron strives to be a good neighbor throughout the Hawaiian islands. Chevron supports many community groups and has an aggressive community outreach program, especially in the new communities of Kapolei and Makakilo, which are located near the subzone refinery. The company continued its support of the School-To-Work Program and provided the opportunity for students to experience life in the workplace as summer interns. In keeping with Chevron's long-term support of Hawaii's students and educational system, the Hawaii Refinery hosted workshops for the Department of Education teachers this past summer, providing them with real-world science applications taught by the company's engineers and technical specialists. Chevron initiated the partnership with the Department of Education to increase real-world learning opportunities in the science and technology field for Hawaii's teachers with the ultimate goal of strengthening classroom curriculum. Chevron also sponsored, in partnership with the Honolulu Police Department, the Keiki (child) I.D. Program at several community events during the year. Chevron continued its sponsorship of the Hawaii High School Athletic Association (HHSAA). The sponsorship package included the State Football Championship and the Girls State Softball Championship, as well as the Coaches' Educational Clinics.

Grant restriction. The original grant of authority, Board Order No. 415, was subsequently modified by Board Order Nos. 517, 769, and 1116. Currently, the grant is subject to the following two conditions:

1. Foreign status (19 CFR §§146.41, 146.42) products consumed as fuel for the refinery shall be subject to the applicable duty rate.

2. Privileged foreign status (19 CFR §146.41) shall be elected on all foreign merchandise admitted to the subzone, except that non-privileged foreign (NPF) status (19 CFR §146.42) may be elected on refinery inputs covered under HTSUS Subheadings 2709.00.1000–2710.00.1050, 2710.00.2500 and 2710.00.4510 which are used in the production of:

   - petrochemical feedstocks and refinery by-products (examiner's report, Appendix C);
   - products for export; and
   - products eligible for entry under HTSUS 9808.00.30 and 9808.00.40 (U.S. Government purchases).

B. Movement of Merchandise – Subzone 9-E

1. Merchandise in Subzone 9-E at Beginning and End of Fiscal Year

	Beginning Value (October 1, 2000)	Ending Value (September 30, 2001)
Domestic Origin/Duty Paid	9,014,596	22,448,822
Foreign Status	51,604,567	30,228,989
Total:	60,619,163	52,677,811

2. Movement of Merchandise in Subzone 9-E During Fiscal Year

Movement	Value
Received:	
Domestic Origin/Duty Paid	121,393,163
Foreign Status	427,667,760
From Other U.S. FTZs:	
• Domestic Status	5,378,905
• Foreign Status	0
Total:	554,439,828
Forwarded:	
To the U.S. Market [1]	492,141,670
To Foreign Countries (Exports)	58,111,210
To Other U.S. FTZs	12,128,300
Total:	562,381,180

[1] *Includes merchandise consumed as refinery fuel and unknown losses within the subzone.*

3. Value Added. Subzone refining activities (labor, overhead, etc.) added approximately 10 percent to the values.

4. Foreign Status Merchandise Received at Subzone 9-E During Fiscal Year

Category	Value
Crude oil	427,667,760
Petroleum products	0
Total:	427,667,760

5. Foreign Status Merchandise Received:

   Nonprivileged Foreign: $291,461,475
   Privileged Foreign: $136,206,285

6. Customs duties collected on merchandise entered into the U.S. Customs territory amounted to approximately $994,000.

7. Merchandise destroyed or loss in Subzone 9-E during the fiscal year was valued at $2.9 million.

SUBZONE 9-F

A. Summary – Synthetic Natural Gas Facility (Citizens Communications Company, dba The Gas Company)

Owner, operator and corporate affiliation. Foreign Trade Subzone 9-F is occupied by Citizens Communications Company, dba The Gas Company, where it operates its Synthetic Natural Gas (SNG) facility. The Subzone was initially authorized by FTZ Board Order 98 on May 17, 1974 as part of Subzone 9-A and activated on March 12, 1975. On March 18, 1997, The Gas Company's SNG facility was granted its own subzone status and became Subzone 9-F.

Subzone site and plant facilities. Subzone 9-F is situated on approximately four acres of land in Campbell Industrial Park, Kapolei, Hawaii, approximately 24 miles west of the primary zone. The SNG facility is capable of producing approximately 16.7 million cubic feet (150,000 therms) of SNG per day to supply central and eastern Oahu with utility gas service.

Employment. Direct employment at Subzone 9-F totaled 32 employees. An additional 190 employees are located in The Gas Company's three other locations on Oahu.

Activities. Since Hawaii has no indigenous fossil fuels, Honolulu's gas utility system uses SNG made from crude oil derivatives. The Gas Company's SNG plant uses the Lurgi process to convert light hydrocarbon into SNG. The plant is exceptionally clean and environmentally sound. Redundancy throughout the plant allows for equipment maintenance without interruption of SNG production.

The SNG plant's maintenance management system is supported by a microcomputer network which organizes the flow of information relating to all repairs or breakdowns in the plant through a work order tracking system and equipment history files. The system schedules and monitors a preventive maintenance program and also provides easy access for spare parts lists and current stock status. Various work stations throughout the plant have access to this information.

Feedstock for the SNG plant is provided by Tesoro Hawaii Corporation, whose refinery adjoins The Gas Company's SNG facility.

The SNG plant's subzone-produced SNG is entered for consumption into the Customs territory and is distributed to The Gas Company's utility customers through its underground gas pipeline system. A by-product of SNG production, carbon dioxide, is also entered for consumption into U.S. customs territory to be used to manufacture dry ice and liquid carbon dioxide.

Economic and business benefits. The SNG plant directly benefits by being next to another Foreign-Trade Subzone, Subzone 9-A, which has an oil refinery owned and operated by Tesoro Hawaii Corporation. As the refinery uses refined crude oil from both domestic and foreign sources, it assures the SNG plant of a constant flow of feedstock from a next-door source.

Public benefits to the local and national economies. Foreign-Trade Zone status has helped The Gas Company to remain competitive in its production and distribution of SNG on the southern corridor of Oahu for more than 25 years. For Hawaii and the United States, that translates to ever-increasing investment in facilities and commensurate levels of local employment.

1) Continuous supply of public utility SNG. The SNG plant's unfailing year-round operation assures a continuous supply of SNG as a part of Hawaii's public utility gas company in Honolulu. Preferred by business and residential customers for its clean, infinitely adjustable heating value, SNG provides a low-cost alternative energy source.

2) Facilities investment. In 1974, with a reliable supply of feedstock from the adjoining refinery, it was possible for The Gas Company to construct its initial SNG plant at a cost of $7.8 million. At that time, the SNG plant's continuous flow of SNG was dependent on a 1909-era backup facility located in downtown Honolulu. The SNG plant assures an uninterrupted supply of SNG by switching, when necessary, to backup equipment that was constructed at a cost of $6.5 million in 1978.

   Shortly after it initiated Zone operations in 1975, the SNG plant began commercial distribution of carbon dioxide, a by-product of its production of SNG. Today, the SNG plant is Hawaii's major producer of carbon dioxide.

   Over the years, the SNG plant has maintained a modern and environmentally sound facility. Significant facility investments have included: expanded laboratory and office areas and equipment; state-of-the-art computer equipment; back-up production equipment; a closed loop water conservation system; enhanced instrumentation; modifications to permit the use of various feedstocks; additional storage tanks; barricades for naphtha storage and pump area; expanded maintenance and warehouse spaces; a demineralizing unit with a strainer system to assure pure water for boilers; energy saving, high-efficiency electrical motors; a stainless steel multi-service cooler; an upgraded nitrogen filling system; modified superheated system vent and installation of remote shut-off controls on various units; a new radio system for plant communications; a Transmation 690z temperature monitoring system; an incoming 5kV electrical feeder; a deluge/sprinkler system for the naphtha storage area; new stationary hydrocarbon monitors to monitor for leaks; and a new high voltage transformer.

In the past year the SNG plant has invested capital into the plant by installing stainless steel piping to use reclaimed water for BFW and performing preliminary engineering work to install a new digital control system for the plant.

3) Jobs and buying power for U.S. workers. During the report period, the SNG plant salaries in the Subzone provided for direct local buying power of nearly $2.0 million for a full-time work force of 32 employees. The SNG plant continues to use contractors to perform tasks such as environmental consulting, specialty welding, mechanical integrity inspection, air conditioning maintenance, landscaping and janitorial services.

B. Movement of Merchandise – Subzone 9-F

1. Merchandise in Subzone 9-F at Beginning and End of Fiscal Year

	Beginning Value (October 1, 2000)	Ending Value (September 30, 2001)
Domestic Origin/Duty Paid	2,648	1,807
Other U.S. FTZ	97,417	103,121
Total:	100,065	104,928

2. Movement of Merchandise in Subzone 9-F During Fiscal Year

Movement	Value
Received:	
Domestic Origin/Duty Paid	799,851
Foreign Status	0
From Other U.S. FTZs:	19,278,676
Total:	20,078,527
Forwarded:	
To the U.S. Market	20,063,723
To Foreign Countries (Exports)	0
To Other U.S. FTZs	9,593
Total:	20,073,316

3. Value added. Value added by Subzone activities (labor, overhead, etc.) was approximately 25 percent of the value of merchandise forwarded.

4. Foreign Status Merchandise Received at Subzone 9-F During Fiscal Year

Category	Value
Naphtha	19,278,676

5. Foreign Status Merchandise Received:

Nonprivileged foreign:	$19,278,676
Privileged foreign:	0

6. Customs duties collected on merchandise entered into the U.S. Customs territory from the Subzone during the fiscal year amounted to approximately $32,989.

7. Merchandise destroyed or consumed (e.g., fuel) in the Subzone during the fiscal year amounted to approximately 29,449 metric tons, valued at approximately $5,722,114.

PART VI. PHOTOGRAPHS

The annual submission of photographs (8" x 10" glossy) for each Zone and Subzone site depicting current activities is not required. Foreign-Trade Zone No. 9 does, however, periodically submit photographs to the Foreign-Trade Zones Board with the understanding that they may be reproduced in government publications or released to the public. Photographs of Zone facilities are available at our web site, *www.hawaii.gov/dbedt/ftz*.

PART VII. ZONE EXPANSION SITES AND SUBZONES AUTHORIZED BUT NOT YET IN OPERATION

Site III. Located at the Mililani Technology Park (MTP) in central Oahu, Site III encompasses 109 acres zoned for commercial and light industrial use. Approval for this expansion site was granted on November 16, 1988. The availability of FTZ procedures at the MTP is intended to facilitate high technology activities there. Castle and Cooke Properties actively seeks qualified FTZ tenants. It continues to work closely with the Department of Business, Economic Development & Tourism and other organizations (both public and private), the High Technology Development Corporation, The Chamber of Commerce of Hawaii, and the Oahu Economic Development Board to promote Zone utilization.

Site IV. Located at the Maui Research and Technology Park in Kihei, Maui, Site IV consists of 59 acres zoned for research and high-technology related uses. This expansion site was approved by the Foreign-Trade Zones Board on June 9, 1992. Temporary activation was approved by the Honolulu District Director of the U.S. Customs Service on April 25, 1995.

Site V. Located in the city of Hilo, adjacent to the Hilo International Airport (General Lyman Field) on the island of Hawaii, Site V encompasses 31 acres zoned for commercial and light industrial uses. This expansion site was approved by the Foreign-Trade Zones Board on June 9, 1992. Temporary activation of this site was approved by the Honolulu District Director of the U.S. Customs Service on July 3, 1995. The County of Hawaii and the Department of Business, Economic Development & Tourism are striving to improve marketing efforts for this site.

Site VII. Located in the city of Honolulu in the airport industrial complex on the island of Oahu, Site VII consists of 7 acres for public cold storage and distribution. This expansion site was approved by the Foreign-Trade Zones Board on June 19, 1995.

Site VIII. Located in the city of Honolulu adjacent to Waikiki in the Kapiolani business district on the island of Oahu, Site VIII is situated on 9.67 acres. This expansion site was approved by the Foreign-Trade Zones Board on June 19, 1995. Activation is event-dependent.

Subzone 9-B. The subzone, operated by HFM, a division of Kerr Pacific Corporation, was authorized by FTZ Board Order No. 274 on October 17, 1984 and activated on January 20, 1986. Located at Pier 23 in Honolulu Harbor, HFM leases more than 72,000 square feet of flour milling, packing, office, and warehouse space on a long-term basis from the State of Hawaii. The subzone site is located within the flour packing and warehouse area. In addition, HFM leases over 35,000 square feet of grain elevator and flat storage space for wheat and feed grains. No merchandise in zone status was received or processed during the fiscal year. On June 29, 1999, the subzone operator filed a deactivation request with the Area Port Director of Customs.

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APPENDIX

A. Foreign-Trade Zone Advantages

B. Graph: Value of Merchandise Handled at All FTZ-9 Sites, 1966–2001

C. Graph: Value of Merchandise Handled at the Honolulu Harbor General-Purpose Zone, 1966–2001

FOREIGN-TRADE ZONE ADVANTAGES

CASH FLOW

U.S. Customs duties are paid only if and when imported merchandise is shipped into the U.S. Customs territory and is subject to duty. Merchandise transferred to another zone, exported, or destroyed may avoid U.S. Customs duties. Inventory is held in the FTZ without duty payment.

EXPORTS

No U.S. Customs duties are paid on merchandise exported from an FTZ. Normally while the drawback law allows the recovery of U.S. Customs duties previously paid after the merchandise is exported, rarely are all exports subject to drawback. Exports to NAFTA countries of unused merchandise are rarely recovered. In an FTZ, the duties are simply never paid.

WASTE/SCRAP/DEFECTS/DAMAGE/ OBSOLESCENCE

U.S. Customs duties are significantly reduced or eliminated on merchandise subject to these accountable losses.

INVERTED U.S. CUSTOMS DUTY SAVINGS

In an FTZ, uniquely, the FTZ user may elect to pay the duty rate applicable to either component materials or the finished product manufactured from the component material, depending upon which is lower. In some cases, the rate may be zero or "duty free." The reduction or elimination of U.S. Customs duties is significant.

NONDUTIABILITY OF LABOR, OVERHEAD, AND PROFIT

U.S. Customs duties are not owed on labor, overhead and profit attributed to production operations in an FTZ. If the same production operation were done overseas, the value of the labor, overhead and profit would be subject to U.S. Customs duty.

STAGED DUTY REDUCTIONS

Under the Uruguay Round of GATT, many articles have U.S. Customs duties reduced yearly. Nonprivileged foreign status merchandise utilizes the rate of duty in effect as of the shipment date from the zone.

REDUCED CYCLE TIME

Delays relating to U.S. Customs clearances are eliminated. Special direct delivery procedures expedite the receipt of merchandise in company facilities, reducing inventory cycle time.

WEEKLY ENTRIES

Weekly entry procedures significantly reduce paperwork and expense. Duties are owed only when and if merchandise is transferred from the zone to the U.S. Customs territory. No duties are owed on exports, zone to zone transfer, certain scrap/waste, etc. Merchandise processing fees are paid only with the entries.

HARBOR MAINTENANCE FEE

Fees are paid quarterly on merchandise admitted in the FTZ, not on the U.S. Customs entry, creating a cash flow advantage.

TAXATION

By Federal statute, tangible personal property imported from outside the U.S. and held in a zone, and tangible personal property produced in the U.S. and held in a zone for exportation, are not subject to State and local ad valorem taxes. Many states and Puerto Rico have tax incentive laws based upon zone status.

PRODUCTION MACHINERY

Machinery for use in a zone may be assembled and installed before duties are owed on either the parts or finished product rate.

INTERNATIONAL RETURNS

A number of firms that export have a percentage of the exports returned to the United States. U.S. Customs duties are owed each time merchandise of foreign origin that has not been registered with U.S. Customs is returned. American Goods Returned merchandise can be verified. By being returned and admitted to an FTZ, no U.S. Customs duties are paid upon return.

COUNTRY-OF-ORIGIN MARKING/LABELING

No country-of-origin labels are required on merchandise admitted to the FTZ. Merchandise shipped into U.S. Customs territory must have appropriate origin labeling which will vary depending on the circumstances.

SECURITY

The FTZ is subject to U.S. Customs Service supervision and security requirements. Unauthorized withdrawal of merchandise, such as employee pilferage or stealing, is a violation of 18 U.S.C. 549, 3571, carrying a penalty up to two (2) years in a federal penitentiary, fines not more than $250,000, or both per offense.

ANTIDUMPING/COUNTERVAILING DUTIES

Use of an FTZ defers the payment of these duties until merchandise enters the U.S. Customs territory. Exported merchandise is never subject to these duties. Note that recovery of these duties is not available under the drawback law.

SPARE PARTS

To service many products, spare parts must be on hand in the United States for prompt shipment. However, it is impossible for most firms to know the requirements for spare parts, especially with new products. Spare parts may be held in the FTZ without U.S. Customs duty payment, generating cash flow savings. Obsolete parts may be destroyed without duty payment.

U.S. QUOTA

Most merchandise may be held in an FTZ, even if it is subject to U.S. quota restriction. When the quota opens, the merchandise may be immediately shipped into U.S. Customs territory. Voluntary restraint and orderly marketing agreements are not impacted by FTZ use.

QUOTA AVOIDANCE

Quota merchandise may be substantially transformed in an FTZ into a non-quota article that may be entered into the U.S. Customs territory free of quota restrictions.

QUALITY CONTROL

The FTZ may be used for quality control inspections to ensure that only merchandise that meets specifications is imported and duty paid. All other materials may be repaired, returned to the foreign vendor, or destroyed.

INVENTORY CONTROL

Operations in an FTZ require careful accounting of receipt, processing, manufacturing, and shipment of merchandise. Firms have found that the increased accountability reduces inventory error, receiving and shipping concerns, and waste and scrap.

ENTIRETIES PROVISION

An importer can choose whether or not the entireties provision (all necessary parts classified as the finished product) is utilized at entry.

EXHIBITION

Merchandise may be held for exhibition in the zone without U.S. Customs duty payment. At a later date the merchandise may be imported or exported.

INSURANCE COSTS

The insurable value of merchandise held in an FTZ need not include the U.S. Customs duty payable on the merchandise. Cargo insurance rates should be reduced because imported merchandise is shipped directly to an FTZ.

ZONE-TO-ZONE TRANSFER

Significant benefits accrue to the in-bond transfer of merchandise from one zone or subzone to another for distribution or manufacture without U.S. Customs duty payment. A network of zone projects provides opportunities to reduce or eliminate duties.

TEMPORARY REMOVAL PROCEDURE

Merchandise may be removed from an FTZ into the U.S. Customs territory for certain activities and returned to the FTZ without U.S. Customs duty payment.

COMPLIANCE WITH FEDERAL LAWS

Merchandise may be admitted into an FTZ without being subject to a wide array of Federal laws that would otherwise prohibit the importation. Upon shipment into the U.S. Customs territory, the merchandise must meet all applicable requirements.

ENTERPRISE ZONE COORDINATION

Foreign-trade zone advantages may be combined with those of enterprise zones for enhanced financial gain.

TRANSFER OF TITLE

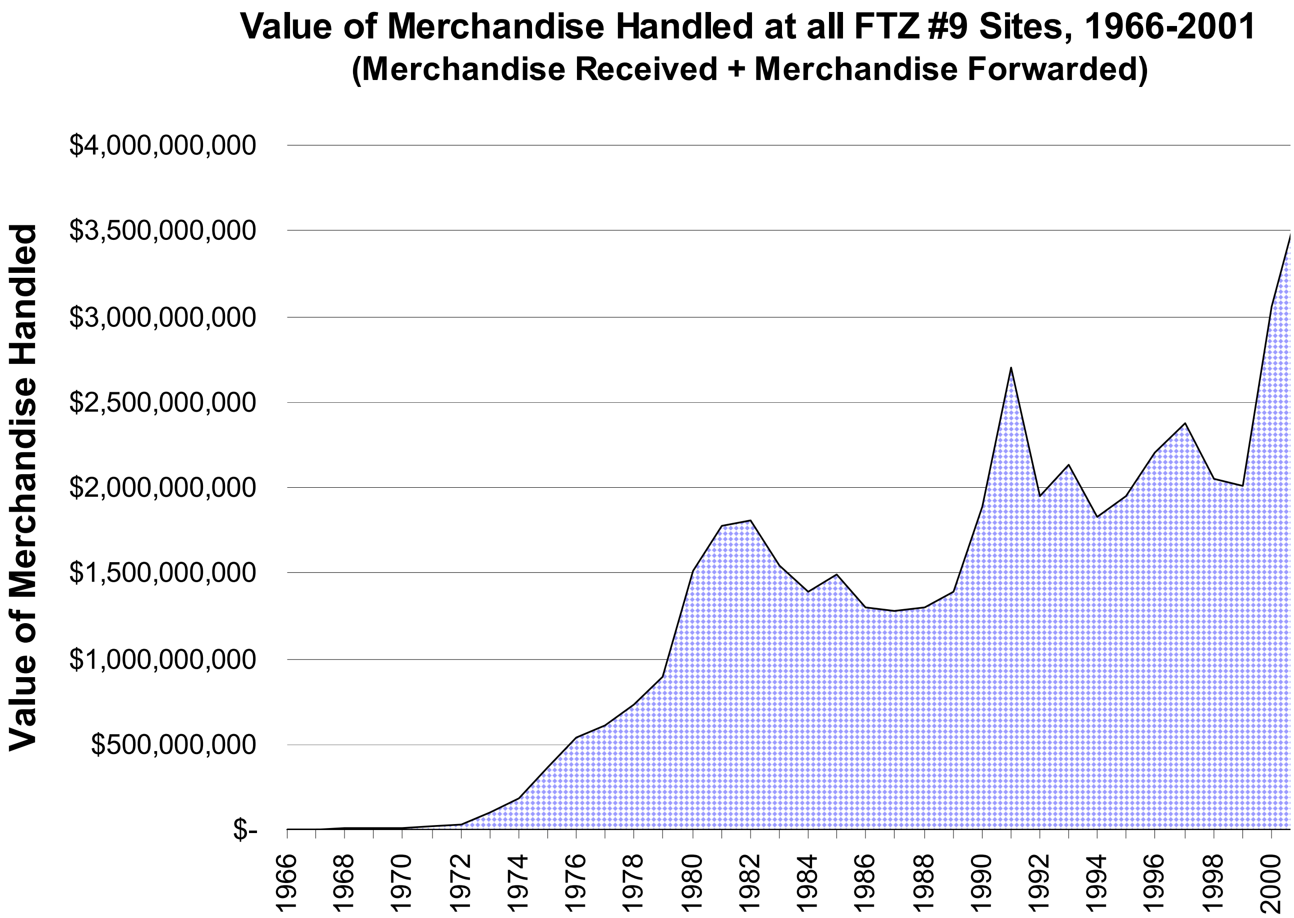
Title to merchandise may be transferred in an FTZ as long as there is not a "retail" sale.

RECORD IDENTITY ACCOUNTING

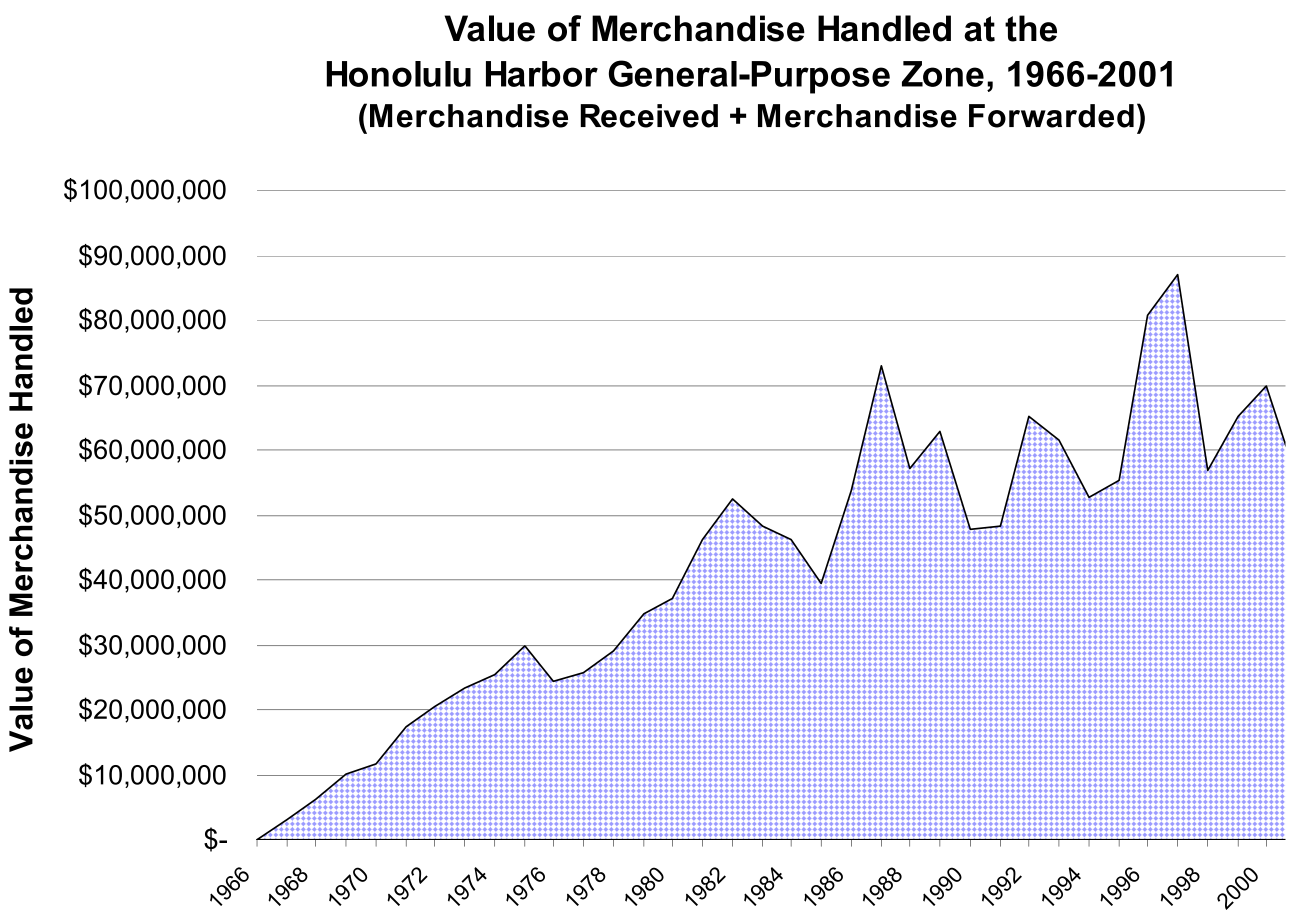
Specific physical identification of merchandise is unnecessary in an FTZ. The UIN systems allows FIFO record identity inventory accounting.

CHANGING CIRCUMSTANCES

As U.S. laws and especially U.S. Customs laws change, location in an FTZ allows a firm greater flexibility in addressing these changing circumstances.



Value of Merchandise Handled at all FTZ #9 Sites, 1966-2001
(Merchandise Received + Merchandise Forwarded)
Value of Merchandise Handled
$4,000,000,000
$3,500,000,000
$3,000,000,000
$2,500,000,000
$2,000,000,000
$1,500,000,000
$1,000,000,000
$500,000,000
$-
1966
1968
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000


Value of Merchandise Handled at the
Honolulu Harbor General-Purpose Zone, 1966-2001
(Merchandise Received + Merchandise Forwarded)
$100,000,000
$90,000,000
$80,000,000
$70,000,000
$60,000,000
$50,000,000
$40,000,000
$30,000,000
$20,000,000
$10,000,000
$-
Value of Merchandise Handled
1966
1968
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000